



CENTURY HOUSING
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**Statement of G. Allan Kingston
to the
California Performance Review Commission
August 13, 2004
University of California, Riverside**

Good afternoon. I am G. Allan Kingston, President and CEO of Century Housing, which is one of California's largest affordable housing lenders, and a successful example of a state entity that was privatized. I also serve as the current Chairman of the National Housing Conference, the nation's oldest housing advocacy organization. I have also been a local city official, an employee of the state of California, and an employee of the federal government.

CONSOLIDATION OF INFRASTRUCTURE AGENCIES

Regarding the California Performance Review and its recommended consolidation of infrastructure agencies into a superagency that would deal with **all** state infrastructure, **if it reduces the visibility of housing programs, or leads to reduction of resources in competition with other programs, then it would not be desirable.**

I liken the proposal to the merger of banks; when two banks who serve the same customers merge, the consolidation can lead to better service and lower administrative cost, with economic benefits to stockholders and customers alike. But, if two banks with **different** customer bases merge, for instance a commercial business bank and a retail consumer bank, the result may be one or the other set of customers being given short shrift, causing the dissatisfied customers to leave for another institution, and ultimately, management failing to deliver the full value of the merger to their stockholders.

Affordable housing has little market power, which is why it requires subsidy throughout most of the state. If the consolidation results in **less** management focus on the problem and/or a shift of resources to other, admittedly deserving, infrastructure needs, there really isn't any place for housing advocates and developers to go. The loss to the state's "stockholders"—the workers who need affordable homes and their employers—would be severe.

A CONSOLIDATED APPLICATION PROCESS

Affordable housing developers would be particularly pleased to see a consolidated application process that would provide access to multiple forms of subsidy for new projects. With land and construction costs rising higher each year, affordable housing requires several layers of financial support, from conventional bank loans to outright grants. We must be careful to retain the accountability and integrity that has been developed by the current agencies, **and it would be appropriate to provide rigorous oversight by independent elected or appointed officials, as is the case with the Tax Credit and Debt Limit Allocation Committees today.** Simplifying access to public subsidy programs would reduce costs, uncertainty and administrative inefficiencies for both private developers and public agencies.

The recommendations regarding consolidation of the related functions into a new Infrastructure Department may have substantial benefit. To begin with, it is laudable that the California Performance Review followed the path taken by the Commission on Building for the 21st Century, and recognized that housing affordable to California's workers is an important aspect of the state's infrastructure, and necessary to the continued health of our economy.

SPAN OF CONTROL

However, common business practice would indicate that there is a limit to the "span of control" that a single Secretary can be expected to exercise. As I read the proposed Infrastructure Department organization chart, **the Secretary would have more than 15 direct reports, six divisions encompassing the most important public facilities in the state (e.g., water, transportation, energy and housing) and four semi-independent offices.**¹ If the focus of the Infrastructure Department was upon policy, planning, and program evaluation only, this broad reach might be manageable, but to expect a **single** department to manage the construction, operation, and maintenance of those facilities as well, is probably unachievable.

Consolidation of state programs related to housing production would be particularly beneficial if it led to better usability by the "clients" or "customers" of those programs. Certainly, **many programs could benefit from standardization of forms and practices, and increased coordination of program goals and processes.** To the extent that consolidation would reduce redundancy, it could also reduce costs and increase efficiency. To that end, I wonder why the recommendations do not propose to bring **all** housing-finance and development related agencies together. There seems to be little difference between allocation of low-income housing tax credits and private activity bonds, and the mortgage financing provided by the Housing Finance Agency and the

¹ Form Follows Function, page 103.

Housing and Community Development Department are sufficiently similar that they could be administered by the same entity.

THE “GORILLA” OF SCHOOL CONSTRUCTION

It is interesting that this panel today includes both housing and school construction. School construction is the 900 lb. gorilla of urban infrastructure today, with billions of dollars allocated to address the shortfall in classrooms in fast growing areas. While this is admirable and necessary, it is being done in a vacuum, with little or no consideration for the impact urban school development is having upon the surrounding community. Just in Los Angeles and San Diego, it is estimated that **over 2,000 units of housing are being lost to school construction**. Consolidation of infrastructure planning, properly managed, would help in efforts to coordinate public facility development and housing.

BALANCING JOBS & HOMES

I have long said that **“Homes are where jobs go to spend the night,”** and we must do more to provide a better balance between the jobs our economy is producing, and the homes available to those workers. I have been pleased to see the effort that Secretary Sunne Wright McPeak has made to link public facilities and infrastructure and housing, because we must emphasize that connection, in terms of location, and in terms of linking income and housing prices. Secretary McPeak’s initiatives to require planning for longer periods, and assuring that facilities are available to provide for both business and residents, is a good beginning.

A SEVERE HOUSING CRISIS

California continues to have a severe housing crisis. Housing production has not kept pace with population growth and household formation for at least a decade, and the production of lower-priced attached housing for rent and sale has not recovered from the recession of the early 1990s. Ten days ago the news reported that California’s builders were going to produce more than 200,000 new homes, the most since 1989. The news reports went on to say that it was not enough—**that 225,000 to 250,000 homes were needed just to keep up with our growing workforce. And even that figure would not address the backlog of need created by 15 years of too few homes being built.** With a median income of about \$56,000, and a median home price of \$445,140 in Los Angeles County, housing is simply unaffordable to most of our workforce. **We must address both the supply and the price of housing if our economy is going to thrive.**

THOSE CITIZENS WITHOUT HOMES

Housing is THE key component of any effort to address the continuing issue of homelessness. There are 82,000 homeless persons on the streets of Los Angeles County on any given day, and this issue must be affirmatively addressed. The programs which are proposed to be located in the new Health and Human Services Department will be important, but experience tells us that **to address the homeless issue, we need “Housing First”—permanent housing affordable to individuals and families with disabilities and very low incomes.**

ADDRESS PREVAILING WAGE

The Department of Industrial Relations currently enforces the state’s “prevailing wage” law for public works projects. Recent statutory amendments expanded the applicability of “prevailing wages” to include any construction work that benefits from any form of public assistance. The Department of Industrial Relations (DIR) has been unable to implement this new mandate effectively and efficiently. **As a result, there is uncertainty on the part of developers of affordable housing and other privately owned facilities regarding their responsibilities and liabilities.** In particular, there is concern that the DIR is unable to provide wage determinations on a timely basis, delaying construction bidding and sometimes threatening funding.

In addition, the DIR often does not provide residential wage rate determinations, requiring residential developments to pay commercial wages to their workers, at a cost premium of 20 to 30 percent. Recent studies have shown that state “prevailing wage” rate determinations are essentially identical to the federal “Davis-Bacon” wage rate determinations. The federal data is often immediately available and does include both residential and commercial rates for construction work. By having the DIR, or its successor, establish the practice of either issuing their own “prevailing wage” residential determinations within a reasonable time period (e.g., 30 days), or allowing developers to use appropriate federal Davis-Bacon wage rates, builders and contractors could proceed in a timely manner and pay wages more accurately reflecting the skills necessary for the type of construction being undertaken.

A PERMANENT SOURCE OF PUBLIC FUNDING

The California Performance Review accurately identifies one of the major problems of housing and public facility development as a pattern of irregular, almost “feast or famine,” funding. Affordable housing programs in particular have suffered from the vagaries of wide swings in funding. **What is needed is a steady and reliable, permanent source of public funding to assist in development of housing affordable to California’s lower income residents.** While the approach used by the California Housing Finance Agency works well with for-sale housing affordable to moderate-income families throughout most of the state, the need for deep subsidy makes it unlikely that their programs will ever be able to meet the needs of lower income workers, or

moderate-income families in high-cost areas—a serious housing crisis affecting California’s many metropolitan areas. A new resource will have to be developed.

LAND RECYCLING

The recommendations regarding Land Recycling should be strongly pursued. In urban areas, land supply is the single most constraining factor in housing development.

Recycling of areas previously used for commercial and industrial purposes is the single largest source of “new” residential land in our older cities, where most public facilities are already in place. However, contamination by prior users severely limits the use of this land, both because housing development could expose residents, especially children, to unacceptable health hazards, and because lenders and insurance providers will not participate in development in those areas. Funding to identify, analyze and clean these contaminated sites in advance of private development would help immeasurably in providing additional housing sites to meet the growth needs of our population.

A STATE CONSTRUCTION INSURANCE POOL

Two other issues related to insurance would also assist in the development of housing throughout the state. First, entry level housing, both for rent and sale, is usually multifamily attached housing. Whether held as apartments, condominiums, cooperatives or other forms of tenure, construction and occupancy of this kind of housing is made more expensive because of the difficulty of obtaining insurance against construction defects. **Contractors and developers now find it nearly impossible to find insurance, and most subcontractors now insist on being covered under a “wrap” policy provided by the developer or general contractor.** These costs are passed along to the ultimate occupant. The state could reduce this burden by creating a publicly supervised construction insurance pool, with strict inspection requirements and construction oversight.

MULTIFAMILY MORTGAGE INSURANCE

Second, the state provides mortgage insurance for single-family homebuyers through the California Housing Finance Agency’s Housing Loan Insurance Fund. However, California does not provide mortgage insurance for multifamily rental housing loans. The federal government provides this form of insurance through the Federal Housing Administration (FHA), as do many states. An example is the State of New York Mortgage Agency’s Mortgage Insurance Fund, which insures not only single-family mortgages, but also multifamily and retail loans. A similar insurance capability in California would greatly assist in reducing the cost of financing housing developments. **This could be done at no net cost to the state, with funding provided through charges paid by the insured parties, just as the CalHFA Mortgage Loan Insurance Fund is funded now.**

Thank you for this opportunity to provide you with my preliminary observations on the work of the California Performance Review. The many staff members, stakeholders and others who contributed to your work are to be commended for their effort. I look forward to the continuing process of evaluating and adopting the most feasible of the report's recommendations.

Century Housing is a private nonprofit affordable housing lender, which has created more than 11,000 units of quality affordable and workforce housing in the metropolitan Los Angeles area. Century links affordable housing for low- to moderate-income families with "More Than Shelter" social services supported through The More Than Shelter Fund, which include on-site after-school tutoring for at-risk youth, career counseling for women to enter the construction trades, child care for low-income families, and wellness programs for seniors. For more information on Century Housing, please visit www.centuryhousing.org, or for information about supporting the More Than Shelter programs, please visit www.morethanshelterfund.org. For more information on the National Housing Conference, please visit www.nhc.org.